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INTERNAL REVENUE SERVICE

Index No. 174.05-02

CC:DOM:IT&A:9 - PLR-111417-99

In re:

SEP - 7 1999

X =

Y =

Dear

This is in reference to a request filed on behalf of X for permission to change to the current expense method of deducting costs similar to research and experimental expenditures relating to the development of computer software as provided for in Rev. Rul. 71-248, 1971-1 C.B. 55, for the tax year beginning January 1, 1998 (year of change).

It is represented that the taxpayer has been deferring costs similar to research and experimental expenditures which are being amortized over a period of 3 to 5 years. The change in accounting method will apply only to those computer software costs that are similar to research and experimental expenditures and that are paid or incurred by the taxpayer on or after the first day of the year of change. As of the first day of the year of change, the total amount of unamortized computer software costs similar to research and experimental expenditures was Y. This amount shall continue to be amortized over the remaining months in the amortization period.

Permission is hereby granted the taxpayer, pursuant to the facts presented, to change to the current expense method of deducting costs similar to research and experimental expenditures relating to the development of computer software, paid or incurred on or after the first day of the year of change to the extent that such expenditures are similar to expenditures that qualify under the provisions of section 1.174-2 of the regulations, beginning with the year of change, provided:

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- (1) that the taxpayer keeps its books and records for the year of change (provided they are not closed for that year on the date the taxpayer receives this letter) and for later tax years on the method granted in this letter;
- (2) that the taxpayer uses the method granted in this letter for the year of change and for all later tax years unless the taxpayer secures permission to change to another recognized method;
- (3) that the taxpayer deducts the unamortized balance of costs similar to research and experimental expenditures treated as deferred expenses prior to the first day of the year of change, in accordance with its present method of amortizing such expenditures; and
- (4) that the taxpayer attaches a copy of this letter to its tax return for the year of change as evidence of its authority for making the change.

In connection with the permission granted herein, it should be understood that the responsibility for making determinations as to whether the expenditures for the development of computer software paid or incurred by the taxpayer in connection with the taxpayer's trade or business are costs similar to research and experimental expenditures is a matter to be considered by the district director upon examination of the taxpayer's return.

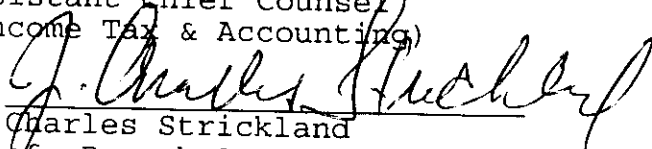
The letter ruling is sent under the provisions of the power of attorney on file with this office. A copy of the letter ruling is being sent to the taxpayer.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely yours,

Assistant Chief Counsel
(Income Tax & Accounting)

By


J. Charles Strickland
Chief, Branch 9

Identification Number 50-07044